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TAGS: [EINV](#) [PGOV](#) [UK](#)

SUBJECT: NO "RIFT" WITH THE U.S. OVER SUMMIT GOALS; SUBTLE
SHIFTS BY UK ON STIMULUS MEASURES

Classified By: Acting Deputy Chief of Mission Mark Tokola for reasons 1
.4 b and d

[11](#). (C/NF) Summary. UK officials have long pressed for coordinated stimulus measures as the Summit's main outcome but now seem to be back-tracking a bit from this call and are emphasizing instead monetary loosening and measures to rebuild banks. According to March 12 press reports, Chancellor of the Exchequer Darling says it is unlikely that he will introduce a second fiscal stimulus package in April's budget. The UK has been largely isolated within the EU in its advocacy of stimulus measures, and EU opposition to spending measures threatens to affect both the atmospherics and the outcome of the Summit. Darling, however, also is trying to preserve room for maneuver, and said publicly he supported Secretary of Treasury Geithner's call to introduce a "sustained commitment to stimulus." He also said he would do whatever is necessary to support the UK economy. The British media is calling attention to what they claim is a growing rift between the U.S. and the UK on Summit goals, and seized upon the recent critical comments of the U.S. by Sir Gus O'Donnell, Cabinet Secretary at No. 10 Downing, as further evidence. No. 10 and HMT officials, however, have reassured us that there is no rift with the U.S. and that the U.S. and UK still see very much eye-to-eye on policy. End Summary.

Stimulus Messages

[12](#). (C) At a March 12 press conference, UK Chancellor of the Exchequer Alistair Darling called on G20 nations to boost their economies using monetary loosening and measures to rebuild banks. Darling advocated tax cuts and implementation of spending measures that have already been approved rather than any new fiscal stimulus package. Other press reports indicated that Darling did not intend to introduce further stimulus measures in the budget to be released on April 22. Darling's comments were a stark contrast to earlier statements from HMG officials that coordinated stimulus measures needed to be the main Summit outcome and that the UK itself would adopt a hefty fiscal stimulus package. In fact, February 26, David Blanchflower, a member of the Bank of England's (BOE) Monetary Policy Committee, said he expected the Government to offer a further fiscal stimulus that would be the UK equivalent in terms of GDP to that of the U.S.' stimulus - or roughly GBP 90bn.

[13](#). (SBU) UK officials seem to be feeling the pressure from the Euro-three - France, Germany and Italy - which are resisting calls for additional stimulus measures. The Times reported that Brown will face a battle next week at the European Council Heads of Government meeting about the need for further stimulus measures and said that EU countries are planning to bind Brown's hands over objectives for the Summit.

[14](#). (C) Michael Perks, HM Treasury's G20 Policy Coordinator,

acknowledged to us that positions about the need for stimulus measures vary across countries in Europe, and that differences would need to be addressed. But he downplayed the idea of the UK being isolated with the EU or that Germany's position on stimulus measures would undermine the EU consensus needed for a successful Summit. He emphasized, as did Darling, that governments need to: focus on "telling the story" of what has already been done to tackle the financial crisis; assess the impact and effectiveness of what has already been implemented; and make the most of what action has already been taken.

15. (C) HMT officials maintain there is no change in the UK position on the importance of stimulus measures and, according to Perks, the U.S. and UK still see eye-to-eye on policy. The media has highlighted that Chancellor Darling, in response to Treasury Secretary Geithner's March 12 comments about the Summit, said that he and the Secretary agree on the need for spending and call for a "commitment to boost demand using all levers available to us" including fiscal stimulus and monetary loosening.

Washington's "Inattention"

16. (C) Despite HMT's avowals that there is no rift developing between the U.S. and the UK, some British officials have been critical of the U.S. and our engagement on London Economic Summit issues. On March 10, Sir Gus O'Donnell, Cabinet Secretary at No. 10 Downing, said that Downing Street was finding it "unbelievably difficult" working with Washington because of the shortage of personnel, especially at the Treasury Department. Downing Street publicly downplayed the remarks and said they were taken out of context.

17. (C/NF) Helen Etheridge, Private Secretary to the PM and Events Manager at No. 10, speaking to A/ECMIN about the upcoming Presidential visit to London, also emphasized that O'Donnell's comments did not reflect Downing Street's view. Cabinet and HM Treasury officials told us, that on the contrary, the Prime Minister and senior officials have been pleased with the U.S. level of engagement, particularly recently. Michael Perks, G20 Policy Coordinator at HM Treasury, said that there was a time when HMT felt a bit in "limbo" because their USG counterparts were not in place, but the HMT has received helpful comments and constructive engagement from the U.S. in recent weeks. Comment: O'Donnell might have been expressing an earlier held view, raised even by the Prime Minister himself in January with the Federal Reserve Bank Chair Bernanke, that the lack of personnel in place in Washington would undermine the U.S.' ability to engage substantively on Summit issues and that without political level leadership in place, the "technocrats" would not be bold or ambitious enough in their proposals.

18. (C/NF) UK officials have, however, expressed frustration at the U.S. not engaging "substantively" on regulatory reform and oversight. Junior Minister at the Department for Business, Enterprise and Reform, Baroness Shriti Vadera, told a business group on March 10 that it was very hard to engage US officials on these issues, but attributed some of that to the "fragmented" system of regulation in the U.S., and to the lack of clear lines of authority among such bodies as the SEC, Commodity Futures Exchange Commission, and the Federal Reserve Bank. She said she did not expect there will be consensus at the Summit on the creation of a college of regulators, which the UK supports, because of the U.S. opposition and existing structures. Vadera also questioned Washington's commitment to the Doha Trade Round and told the business leaders that she doubted that the U.S. will sign up to a Summit statement that spells out a specific timeframe for negotiations.

Comment

19. (C/NF) For the moment, the UK is trying to not isolate itself further in the EU nor to heighten the risk of EU

dissension that could undermine the Summit. In principle, HMG still seems to be in favor of spending measures. The advantage of the UK budget not being released until late April is that it would allow HMG to introduce such measures, if the environment within Europe and within the UK, allow it. On matters such as Doha and regulation, the UK is nervous that the U.S. will not be supportive as HMG would like, and would like clarification, particularly on the trade round, from the U.S. on its position.

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